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E.O. 11652: GDS

TAGS: ETRD, EPAP, EFIN, BR, EAIR

SUBJECT: SEPT. 3 MEETING OF THE US-BRAZIL TRADE CONSULTATIVE

SUB-GROUP: MORNING SESSION ON BILATERAL TRADE AND COMMODITY
ISSUES

1. SUMMARY - SUBJECT MEETING IN BRASILIA COVERED REVIEW
OF STATE OF BRAZILIAN AND US ECONOMICS, BILATERAL TRADE
ISSUES (APPLES AND PEARS, US EXPORT OF SMALL AIRCRAFT,
DISCRIMINATORY FEUL TAX, SUGAR, AND OTHER SUBJECTS), RECENT
CVD ACTIONS, GSP, AND RENEGOTIATION OF SCHEDULE III OF THE
GATT. SEPARATE TELEGRAM FOLLOWS ON AFTERNOON SESSION
WHICH WAS DEVOTED EXCLUSIVELY TO DISCUSSION OF MTN. BOTH
SESSIONS WERE CORDIAL AND FRUITFUL AND DEMONSTRATED AGAIN
USEFULNESS OF THESE REGULAR CONSULTATIONS. END SUMMARY

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2. ON SEPTEMBER 3, THE THIRD SEMI-ANNUAL SESSION OF THE

US-BRAZIL TRADE CONSULTATIVE SUB-GROUP CONVENED IN BRASILIA. THE U.S. DELEGATION WAS CHAIRED BY AMBASSADOR CLAYTON YEUTTER, DEPUTY SPECIAL TRADE REPRESENTATIVE, AND INCLUDED DEPUTY ASSISTANT SECRETARIES GRUNWALD (ARA), GEIMER (EB), AND VASTINE (TREASURY-OASIA), AND FORREST ABBUHL (COMMERCE-IEFP, LANDE (STR), GEORGE WHITE (AGRICULTURE-FAS), BETSY WHITE (LABOR-FEP), KNEPPER (U.S. MISSION GENEVA), AND BURSON (ARA). EMBASSY DELEGATES AND OBSERVERS INCLUDED AMBASSADOR CRIMMINS, FINATT, AGATT, AND EMBOFFS. THE BRAZILIAN DELEGATION WAS CHAIRED BY AMBASSADOR SOUTO MAIOR, CHIEF OF THE FOREIGN MINISTER'S CABINET, AND INCLUDED MINISTER ROUANET, ACTING CHIEF OF THE FONMIN'S ECONOMIC DEPARTMENT (ROUANET CHAIRED MUCH OF THE DISCUSSIONS IN SOUTO MAIOR'S ABSENCE), DR. ARY PINTO, COORDINATOR FOR INTERNATIONAL AFFAIRS AT THE MINISTRY OF FINANCE, DR. FERNAO BRACHER, DIRECTOR OF THE CENTRAL BANK'S FOREIGN EXCHANGE DEPARTMENT, AND FROM THE FONMIN'S ECONOMIC DEPARTMENT, MINISTER COSTA FRANCO, CHIEF OF THE FINANCIAL POLICY DIVISION, AND COUNSELOR PINHEIRO, CHIEF OF THE BASIC PRODUCTS DIVISION. OTHER DELEGATES CAME FROM THE MINISTRIES OF FOREIGN RELATIONS AND FINANCE, THE CENTRAL BANK, CACEX (THE FOREIGN TRADE AUTHORITY OF THE BANK OF BRAZIL), AND CONCEX (THE NATIONAL COUNCIL ON FOREIGN TRADE, AN INTER-MINISTERIAL BODY).

3. THIS TELEGRAM COVERS THE MORNING SESSION, WHICH TOOK UP THE FOLLOWING AGENDA ITEMS:

(1) OPENING REMARKS AND DISCUSSION OF THE AGENDA;

(2) STATE OF THE BRAZILIAN AND UNITED STATES ECONOMIES AND PROSPECTS;

(3) SPECIFIC BILATERAL ISSUES:

A) BRAZILIAN EFFORTS TO EXPAND AND DIVERSIFY ITS EXPORTS AND TO IMPROVE ITS BALANCE OF PAYMENTS SITUATION (EXPORT INCENTIVES AND IMPORT RESTRICTIONS);

B) U.S. TRADE ACT - (COUNTERVAILING DUTIES, SAFEGUARDS AND THE GSP);
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C) OTHER SPECIFIC ISSUES - APPLES AND PEARS, AIRCRAFT, AND SUGAR.

(4) RENEGOTIATION OF SCHEDULE III - BRAZIL.
SEPTTEL SUMMARIZES THE AFTERNOON DISCUSSIONS ON THE MTN, AGENDA ITEM (5):

(5) MULTILATERAL TRADE NEGOTIATIONS:

A) DIFFERENTIATED TREATMENT AND SPECIAL PROCEDURES:
GENERAL REVIEW;
B) THE RECIPROCITY QUESTION;
C) SAFEGUARDS;
D) FRAMEWORK GROUP (BRAZILIAN GATT REFORM PROPOSAL);
D) TARIFFS;
F) SUBSIDIES AND COUNTERVAILING DUTIES;
G) OTHER ISSUES: TROPICAL PRODUCTS AND THE
BRAZILIAN PROPOSAL FOR THE NEGOTIATION OF
PREFERENCES.

AGENDA ITEM 1: OPENING REMARKS

4. SOUTO MAIOR SAID HE RECOGNIZED THAT, ALTHOUGH THE
OVERALL TRADE DEFICIT IS THE MOST IMPORTANT VARIABLE,
IN HIS "PERHAPS BIASED FRAMEWORK" THERE IS A NEED TO
LOOK AT THE BILATERAL DEFICIT SINCE THE OVERALL DEFICIT
IS THE NET OF BILATERAL DEFICITS (AND SURPLUSES). THUS,
HE WANTED TO NOTE THAT IN 1975 THE BILATERAL DEFICIT WAS
ABOUT 1.7 BILLION DOLLARS, THE BILATERAL CURRENT ACCOUNT
DEFICIT WAS ABOUT 3.0 BILLION DOLLARS, AND THE BILATERAL
BOP DEFICIT WAS STILL SUBSTANTIAL EVEN AFTER TAKING INTO
ACCOUNT CAPITAL INFLOWS FROM THE U.S. REGARDING BRAZIL'S
IMPORT RESTRICTIONS, SOUTO MAIOR OBSERVED THAT THEY HAD NOT
DECREASED OVERALL U.S. EXPORTS TO BRAZIL, AND THUS HAVE
NOT HAD A NEGATIVE IMPACT ON TRADE WITH THE U.S.

5. AMB. YEUTTER RESPONDED THAT, EVEN THOUGH THE
RESTRICTIONS HAVE NOT DECREASED U.S. EXPORTS, THE U.S.
WOULD LIKE EXPORTS TO INCREASE, NOT JUST STABILIZE. HE
NOTED THE "FAIRLY DRAMATIC" INCREASE OF BRAZILIAN EXPORTS
TO THE U.S. IN THE FIRST HALF OF 1976. AMB. YEUTTER SAID
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U.S. CONCERNS ARE NOT SO MUCH MACROECONOMIC AS THEY
ARE MICROECONOMIC -- THAT IS, THE IMPACT OF THE
RESTRICTIONS ON CERTAIN SPECIFIC GOODS. HE REMARKED ALSO
THAT THE U.S. IS DISAPPOINTED THAT THE EMBARGO ON
"SUPERFLUOUS" GOODS HAS BEEN EXTENDED AND HE ASKED IF IT
WOULD BE EXTENDED AGAIN BEYOND THE END OF 1976. BRACHER
REFUSED TO SPECULATE ON AN EXTENSION.

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AGENDA ITEM 2: ECONOMIC CONDITIONS AND PROSPECTS

6. ARY PINTO SUMMARIZED, IN AN OFTEN RAMBLING FASHION, BRAZIL'S ECONOMIC PERFORMANCE SINCE THE REVOLUTION ASSUMED POWER IN 1964. HE NOTED PARTICULARLY THE HIGH GROWTH RATES ACHIEVED IN THE 1968-1974 PERIOD, AND THE PROGRESS IN REDUCING INFLATION UP THROUGH 1973. HE STRESSED THE GRADUALISTIC AND PRAGMATIC APPROACH OF BRAZILIAN ECONOMIC POLICY. ON IMPORT RESTRICTIONS, PINTO REMARKED THAT MEASURES WERE NEEDED AFTER THE 102 PERCENT INCREASE IN IMPORTS IN 1974. HE TOUCHED ON THE IMPORT SUBSTITUTION STRATEGY BRAZIL HAS ADOPTED, WHICH EMPHASIZES BASIC PRODUCTS AND CAPITAL GOODS. PINTO SAID DESIRABLE LONG-TERM OBJECTIVES WERE: A CURRENT ACCOUNT DEFICIT OF ABOUT 2 BILLION DOLLARS PER YEAR (COMMENT: PRESUMABLY THIS WOULD IMPLY A SUBSTANTIAL TRADE SURPLUS TO OFFSET THE

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SERVICES DEFICIT), AND GROWTH RATES OF 4-5 PERCENT PER YEAR, THE MAXIMUM CONSISTENT WITH INFLATION AND BALANCE-

OF-PAYMENTS OBJECTIVES.

7. IN THE CURRENT TRANSITIONAL PERIOD, WHICH MIGHT END IN 1978, PINTO OBSERVED, IT IS IMPOSSIBLE TO PREDICT WHEN IMPORT RESTRICTIONS CAN BE REMOVED. THE NORMALLY DIFFICULT TRADEOFFS AMONG INFLATION, GROWTH, AND BOP HAVE BEEN MADE MORE DIFFICULT THIS YEAR AS A RESULT OF HIGH INFLATION AND OVERHEATED GROWTH. NONETHELESS, HE REMARKED, THE GOB HAS TAKEN CLASSICAL MONETARY TIGHTENING MEASURES (E.G., INCREASE IN BANK DEPOSIT REQUIREMENTS) TO STEM THE HIGHER INFLATION. PINTO CLOSED HIS COMMENTS ON THE OVERALL SITUATION BY OBSERVING THAT (A) MORE IMPORTANT THAN GROWTH IS THE SPREADING OF BENEFITS TO THE PEOPLE, AND (B) THE SITUATION OF THE WORLD ECONOMY SINCE 1973 HAS MADE 10-11 PERCENT GROWTH RATES IMPOSSIBLE.

8. ON INTERNATIONAL TRADE AND PAYMENTS, PINTO SAID IMPORTS IN THE FIRST-HALF OF 1976 WERE 1.3 PERCENT BELOW THOSE IN THE FIRST HALF OF 1975, AND EXPORTS FOR THE SAME PERIOD WERE UP BY 5.7 PERCENT. HE PROJECTED EXPORTS FOR THE YEAR AT 9.5 - 10.0 BILLION DOLLARS AND IMPORTS AT ABOUT 12 BILLION DOLLARS, I.E., A TRADE DEFICIT OF 2.0 - 2.5 BILLION DOLLARS. RESERVES, HE SAID, HAVE REMAINED IN THE RANGE OF 4.0 - 4.5 BILLION DOLLARS. PINTO SAID THERE ARE NO DIFFICULTIES IN THE INFLOW OF FOREIGN FUNDS, BUT THIS SITUATION IS BEING WATCHED.

9. AMB. YEUTTER SAID PINTO'S SUMMARY WAS GENERALLY CONSISTENT WITH OUR ASSESSMENT OF THE BRAZILIAN SITUATION. HE NOTED THAT IN THE SECOND MEETING OF THE SUB-GROUP IN MARCH THE US HAD HOPED THAT BRAZIL'S TRANSITION WOULD PROCEED FASTER THAN THE TIME-FRAME PINTO HAD DESCRIBED. AMB. YEUTTER SAID HIS MAJOR COMMENT WAS THAT THE US HOPES THAT BRAZIL, AS IT MOVES THROUGH THE TRANSITION, WOULD MAKE ADJUSTMENTS IN ITS POLICIES WHICH "MOVE MORE TOWARD THE MONETARY SIDE RATHER THAN THE TRADE SIDE." HE CITED AS AN EXAMPLE OF THE NEED FOR MORE MONETARY EMPHASIS THE LIMITED OFFICIAL USE

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HIGH RATE OF MONETARY EXPANSION IN 1975, OVER 40 PERCENT, AMB. YEUTTER OBSERVED THAT A COUNTRY CAN APPLY STRONG IMPORT RESTRICTIONS ONLY OVER THE SHORT-TERM; OVER THE LONG-TERM SUCH RESTRICTIONS CREATE BOTH POLITICAL PRESSURES AND ECONOMIC BOTTLENECKS.

10. TURNING TO THE US ECONOMIC SITUATION, AMB. YEUTTER SAID THAT WE ARE GENERALLY QUITE PLEASED WITH THE PACE OF OUR RECOVERY FROM THE RECENT RECESSION. WE HAVE

SOUGHT A REASONABLE GROWTH RATE RATHER THAN AN INFLATIONARY BOOM, AND THE ECONOMY SEEMS TO BE RIGHT ON TRACK. ACTUAL PERFORMANCE OF KEY VARIABLES PROBABLY WILL BE A LITTLE BETTER THAN PERFORMANCE PREDICTED AT THE START OF THE YEAR: GNP CURRENT PREDICTION IS 7.0 PERCENT, VERSUS THE 6.2 PERCENT PREDICTION MADE EARLIER; INFLATION - 5.3 PERCENT VERSUS 5.9 PERCENT; AND UNEMPLOYMENT, 7.4 PERCENT VERSUS 7.7 PERCENT. THE US BOP IS IN DEFICIT NOW, AMB. YEUTTER SAID, AND HIGHER OIL PRICES COULD MOVE THE US INTO A GREATER DEFICIT IN 1977. AN OPEC PRICE INCREASE OF AT LEAST 10 PERCENT SEEMS LIKELY, HE ADDED, AND THIS WOULD DEAL A BLOW TO BOTH THE US AND BRAZILIAN ECONOMIES. AMB. YEUTTER NOTED THAT THERE ARE SOME UNKNOWN FACTORS IN FOOD PRODUCTION.

11. IN THE CONTEXT OF AMB. YEUTTER'S REFERENCE TO MORE BRAZILIAN MONETARY EMPHASIS, DR. GRUNWALD ASKED THE BRAZILIAN SIDE WHETHER CONSIDERATION HAD BEEN GIVEN TO GREATER DEVALUATIONS. PINTO REPLIED THAT THE GOVERNMENT HAD RESORTED TO "CONVENTIONAL" MEASURES OF MONETARY CONTROL, PLUS SOME INCOMES POLICIES (E.G., WAGE RESTRAINT). BRACHER SAID THE MINI-DEVALUATION SYSTEM HAD PROVED TO WORK WELL, AND DEVALUATIONS AMOUNTING TO 34.8 PERCENT OVER THE PAST 12 MONTHS WERE THE HIGHEST EVER. HE OBSERVED THAT EXPORTS OF INDUSTRIALIZED PRODUCTS ARE UP BY 12.5 PERCENT SO FAR THIS YEAR. HE JUDGED THAT THE COST OF IMPORTED CAPITAL, 34.8 PERCENT PLUS THE REAL RATE, SEEMED FAIR FOR THOSE WHO IMPORT CAPITAL. BRACHER POINTED TO THE DIFFICULTIES THE EUROPEANS ARE HAVING IN FINDING THE "CORRECT VALUATION" UNDER THE FLOAT. EUROPEAN CENTRAL BANKS LIMITED OFFICIAL USE

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ARE INTERVENING TO KEEP THEIR CURRENCIES AT THIS VALUATION, BUT SPECULATIVE FORCES HAVE MADE THIS DIFFICULT AND COSTLY. (ROUANET NOTED THAT THE DISCUSSIONS JUST CONCLUDED HAD TAKEN CARE OF AGENDA ITEM 3 (A).)

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AGENDA ITEM 3 (C): OTHER SPECIFIC ISSUES

12. APPLES AND PEARS

TURNING TO SPECIFIC BILATERAL ISSUES,AMB. YEUTTER

TOUCHED FIRST ON THE RESTRICTIONS ON APPLES, PEARS, DRIED

FRUITS,AND ALMONDS, NOTING THAT US EXPORTERS ARE CONCERNED

THAT: (1) THESE PRODUCTS ARE CONSIDERED BY THE GOB AS "NON-

ESSENTIAL" WHEN CONGNAC, WINES, ETC., ARE

PERMITTED, AND (2) THERE ARE RECENT

INDICATIONS THAT THE HUNGARIANS AND PERHAPS THE SPANISH

WOULD RECEIVE LICENSES TO IMPORT APPLES AND POSSIBLY OTHER

COMMODITIES (E.G., DRIED FRUIT). AMB. YEUTTER SAID THIS ISSUE

HAD GENERATED SUBSTANTIAL DOMESTIC COMPLAINTS. ROUANET

SAID HE DID NOT KNOW THE DETAILS OF ANY POSSIBLE PURCHASES,

BUT, IF SUCH PURCHASES WERE TO BE MADE, HE "GUESSED"

THAT IT MIGHT MAKE SENSE TO GIVE PRIORITY TO NATIONS WITH

WHICH BRAZIL HAS A BILATERAL TRADE SURPLUS.HE ALSO NOTED

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THAT WITH CERTAIN COUNTRIES BRAZIL CAN LINK IMPORTS TO

EXPORTS. BEFORE CALLING ON THE CACEX REPRESENTATIVE TO SPEAK,

ROUANET COMMENTED THAT A LOOK AT THE STATISTICS ON APPLE

AND PEAR TRADE WITH THE US WOULD PUT THE ISSUE INTO BETTER

PERSPECTIVE: IN 1974 BRAZIL IMPORTED 6.1 MILLION DOLLARS

IN APPLES FROM THE US, AND 13 MILLION DOLLARS IN PEARS. THE CACEX REPRESENTATIVE CONFIRMED THAT BILATERAL TRADE SURPLUSES WERE TAKEN INTO ACCOUNT IN DECIDING ON EXEMPTIONS FROM THE NON-LICENSING POLICY FOR FRUIT. REGARDING IMPORTS OF ARGENTINE APPLES, ROUANET NOTED BRAZIL'S "DIFFICULTIES" WITH LAFTA COUNTRIES.

13. YEUTTER RESPONDED THAT US PRODUCERS WOULD BE "IRATE" WHEN THEY LEARN THE HUNGARIAN PURCHASE IS CONFIRMED, AND THE RESULT WILL BE A "REAL STIR" IN THE US. THE IMPLICATIONS GO BEYOND THE IMMEDIATE ISSUE SINCE SOME INDUSTRY REPRESENTATIVES WHO PARTICIPATE IN THE USG'S MTN ADVISORY COMMITTEES ARE PERSONALLY INVOLVED IN THE APPLE AND PEAR ISSUE. THEY CAN BE EXPECTED, AMB. YEUTTER SAID, TO OPPOSE ANY MTN FRUIT OR VEGETABLE CONCESSIONS FOR BRAZIL IF THE HUNGARIAN DEAL GOES FORWARD AND US SUPPLIERS REMAIN EXCLUDED. HE SUGGESTED THAT IT WOULD BE BEST FOR EVERYONE CONCERNED IF BRAZIL WERE TO GIVE AT LEAST SOME ACCESS TO US PRODUCERS, AND SOON. ROUANET CALLED THIS REQUEST "REASONABLE", AND SAID THE GOB CERTAINLY WOULD CONSIDER IT. HE SAID HE REALIZED THAT SPECIFIC, NOT JUST MACROECONOMIC, PRESSURES SOMETIMES HAD TO BE TAKEN INTO ACCOUNT, CITING THE LEATHER HANDBAG COUNTERVAILING DUTY AS CREATING SIMILAR PRESSURES FOR GOB. WHITE (USDA) URGED THE GOB TO COMPLETE ITS REVIEW ON APPLES AND PEARS QUICKLY SINCE SEPTEMBER 15 WAS LATEST DATE BY WHICH US SUPPLIERS HAD TO DECIDE ABOUT SHIPMENTS OF THE CURRENT CROP TO BRAZIL. AMB. YEUTTER REITERATED THE IMPORTANCE OF A TIMELY DECISION. HE ALSO STRESSED THAT DRIED FRUIT AND AND ALMOND PRODUCERS HAVE ALSO MOUNTED CONSIDERABLE PRESSURES, AND THAT THE GOB SHOULD GIVE EARLY ATTENTION TO ALLOWING SOME IMPORTS OF THESE PRODUCTS.

14. THE SECOND AREA OF BILATERAL CONCERN WAS AVIATION, SPECIFICALLY THE FUEL-TAX ISSUE AND THE SMALL-AIRCRAFT IMPORT PROBLEM. ON FUEL TAX, AMB. YEUTTER NOTED THE LIMITED OFFICIAL USE

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US IS NOW OBLIGED TO RESPOND, AND HE SAID THE US WOULD PRESENT A SUGGESTED SOLUTION SOON. HE ADDED THAT WE CONSIDER THIS AN ISSUE OF SOME URGENCY. AMBASSADOR CRIMMINS STRESSED THE USG'S "DISAPPOINTMENT" AT MOST RECENT GOB PROPOSAL, WHICH PUT THE FUEL TAX INTO THE BROADER CHARTER-BILATERAL CONTEXT, AND HE STRESSED THE URGENCY OF RESOLVING THIS VERY DEFINABLE ISSUE BEFORE IT ESCALATES OUT OF ALL PROPORTION TO THE AMOUNT OF MONEY INVOLVED. HE NOTED THAT THE URGENCY RELATES TO THE DEPARTMENT OF COMMERCE'S STATUTORY REQUIREMENT TO MAKE A FINDING ON RECIPROCITY. ROUANET SAID THE GOB WOULD RESERVE

COMMENT UNTIL IT RECEIVED THE US NOTE.

15. ON THE ISSUE OF IMPORTATION OF AIRCRAFT, AMB. YEUTTER SAID CESSNA IS VERY UNHAPPY WITH THE DECLINE IN ITS SALES TO BRAZIL DUE TO IMPORT RESTRICTIONS. CESSNA'S ONLY VALID COMPLAINT, HE SAID, RELATED TO THE POSSIBILITY OF THE SUBSIDIZED SALE OF EMBRAER'S TURBOPROP "BANDEIRANTE" AIRCRAFT TO A US FIRM, FEDERAL EXPRESS. AMB. YEUTTER SAID CESSNA CLAIMED IT WOULD FILE A CVD, AND POSSIBLY A SECTION 301, COMPLAINT. HE ASKED FOR THE GOB'S VIEWS.

16. ROUANET CLAIMED THE MATTER WAS SIMPLY A PROBLEM OF INTERFIRM COMPETITION AND CESSNA UNHAPPINESS AT PIPER'S SUCCESS IN OBTAINING A LICENSING AGREEMENT WITH EMBRAER. SALES OF US-MADE COMPONENTS USED BY EMBRAER INCREASED SUBSTANTIALLY IN 1975. (DURING A LUNCHEON CONVERSATION, ROUANET EXPLAINED TO LANDE THAT IMPORT OF US COMPONENTS IN 1975 EXCEEDED IMPORTS OF COMPLETE US AIRCRAFT IN 1973.) ROUANET SAID THE US AIRCRAFT INDUSTRY AS A WHOLE HAD LITTLE REASON TO BE DISSATISFIED WITH BRAZIL. ROUANET SAID "FRANKLY" HE WAS "COMPLETELY SURPRISED" BY THE POSSIBILITY OF COMPLAINTS, AND HE COULD SEE NO POSSIBLE GROUNDS FOR THEM. HE SAID HE HOPES THE US WOULD TAKE INTO ACCOUNT THE TOTAL US-BRAZIL TRADE IN AIRCRAFT AND PARTS. AMB. YEUTTER OBSERVED THAT THIS ISSUE MAY NOT BE AN IMMEDIATE PROBLEM SINCE EMBRAER AIRCRAFT MIGHT NOT BE SHIPPED LIMITED OFFICIAL USE

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TO THE U.S. UNTIL NEXT YEAR, BUT EMPHASIZED THAT IF A SUBSIDY WERE USED, A CVD OR 301 COMPLAINT WOULD ALMOST ASSUREDLY BE STIMULATED.

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17. COFFEE. AMB. YEUTTER SAID BRAZIL'S PURCHASE OF COFFEE (E. G., 560,000 BAGS FROM EL SALVADOR) HAD CAUSED THE US CONCERN. ALTHOUGH WE RECOGNIZED BRAZIL'S BOP DIFFICULTIES AND ITS DESIRE TO MAXIMIZE FOREIGN EXCHANGE EARNINGS, WE REGARDED THIS PURCHASE AS A VIOLATION OF THE SPIRIT OF THE ICA. PINHEIRO REPLIED THAT THE ISSUE WAS GOING TO BE RAISED IN THE COFFEE COUNCIL THIS MONTH, AND WAS TO BE HANDLED AT A SPECIFIC AND TECHNICAL LEVEL. HE DENIED THAT THE EL SALVADOR PURCHASE VIOLATED EITHER THE SPIRIT OR THE LETTER OF THE ICA. PINHEIRO THOUGHT THAT WHAT WAS IMPORTANT WAS THAT BRAZIL WAS MEETING ITS EXPORT COMMITMENTS EVEN AFTER 1975'S FROST; AND HE SAID ASSISTANT SECRETARY GREENWALD'S SENATE TESTIMONY IN SUPPORT OF THE ICA HAD MENTIONED THAT EXPORTING COUNTRIES HAD BEHAVED VERY WELL. HE
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SAID BRAZIL'S PURCHASE WAS AIMED AT SUPPLYING THE DOMESTIC SOLUBLE INDUSTRY, AND NOT AT SHORING UP PRICES WHICH SPECULATORS HAVE DRIVEN DOWN.

18. VASTINE AGREED THAT THE ICO WAS THE APPROPRIATE FORUM FOR DISCUSSION OF THIS ISSUE. HE WARNED BRAZIL, HOWEVER, THAT THE US HAD AGREED TO SIGN THE COFFEE AND TIN AGREEMENTS ONLY ON ASSURANCES THAT THEY WOULD NOT DISSERVE U.S. CONSUMERS AND THAT THEY WOULD HELP STABILIZE MARKETS. HE SAID THE US

HOPED THE ICA COULD BE SHOWN TO WORK WELL, SO THAT THE US COULD SIGN IT AGAIN THREE YEARS HENCE.AMB. YEUTTER OBSERVED THAT THE US IS NOT PERSUADED BY THE BRAZILIAN DEFENSE OF ITS PURCHASE.

19. SUGAR. ROUANET SAID THE GOB UNDERSTOOD THERE WERE ATTEMPTS BY US PRODUCERS TO REINSTITUTE THE SUGAR ACT, BUT HE WAS UNSURE WHETHER THIS UNDERSTANDING WAS CORRECT. THOUGH IT MIGHT BE "WLDLY PREMATURE," HE SAID, THE GOB WOULD LIKE TO RECORD ITS INTEREST IN BEING ADMITTED, BASED ON PAST EXPORT PERFORMANCE AND ON CURRENT EXPORT POTENTIAL. HE SAID HE WOULD NOT ADVANCE A SPECIFIC FIGURE (FOR THE QUOTA BRAZIL WOULD DESIRE), BUT HE WANTED TO NOTE THAT: (A) IN 1970-74 BRAZIL SHIPPED 34 PERCENT OF ITS EXPORTS TO THE US, (B) BRAZIL EXPECTS TO HAVE AN EXPORTABLE SURPLUS OF ABOUT 4 MILLION TONS PER YEAR IN 1980, AND (C) 34 PERCENT OF THIS WOULD BE ABOUT 1.36 MILLION TONS.

20. AMB. YEUTTER REPLIED THAT, ALTHOUGHSTIRRINGS ARE UNDERSTANDABLE IN AN ELECTION YEAR, AND SPECIFICALLY BECAUSE OF SEN. RUSSELL LONG'S RECENT PROPOSAL, AND ALTHOUGH PRESENT PRICES ARE BELOW COST OF PRODUCTION IN THE U.S., THERE IS NO EXPECTATION OF LEGISLATION THIS YEAR, AND LITTLE LIKELIHOOD ON 1977. OF THE THREE POSSIBILITIES FOR ADMINISTRATIVE ACTION, AMB. YEUTTER SAID: (A) ADMINISTRATIVE FLEXIBILITY TO RAISE TARIFFS IS VERY LIMITED; (B) THERE IS NO CHANCE THE ADMINISTRATION WOULD ESTABLISH A PRICE SUPPORT PROGRAM THIS YEAR OR IN 1977 IF PRESIDENT FORD IS RE-LIMITED OFFICIAL USE

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ELECTED, ALTHOUGH THERE MAY BE A BETTER CHANCE IF GOVERNOR CARTER IS ELECTED; AND (C) THE ONLY FEASIBLE POSSIBILITY IF ACTION WERE TO BE TAKEN WOULD BE TO LOWER THE 7 MILLION TON GLOBAL QUOTA. ESTABLISHING COUNTRY QUOTAS WOULD BE A "NIGHTMARE", THUS A GLOBAL QUOTA WOULD CONTINUE TO BE PREFERABLE (FIRST COME-FIRST-SERVED, HOWEVER, HAS ITS PROBLEMS IF A GLOBAL QUOTA BECOMES RESTRICTIVE). AMB. YEUTTER JUDGED THAT, UNLESS THE PRICE REALLY FALLS APART, IT IS NOT LIKELY ANY ACTIONS WOULD BE TAKEN THIS YEAR, OR NEXT IF THE PRESIDENT IS RE-ELECTED. RECENT PRESSURES FOR ACTION APPEAR TO HAVE EASED SOMEWHAT. PINHEIRO SAID RECENT INFORMATION FROM THE BRAZILIAN EMBASSY IN WASHINGTON IS THAT GOVERNOR CARTER IS AVERSE TO A SUGAR ACT, BUT MAY FAVOR THE "DEFICIENCY PAYMENTS" CONCEPT. PINHEIRO ASKED FOR AN EXPLANATION OF THE CONCEPT, WHICH AMB. YEUTTER

GAVE, AND HE ADDED THAT LEGISLATION WOULD BE NEEDED TO SET UP SUCH A SYSTEM FOR SUGAR. PINHEIRO SAID THE GOB WAS PLANNING SOME INFORMAL NEGOTIATIONS ON THE ISA, AND SAID HE ASSUMED THE US WAS AS WELL.

21. CCC LENDING. ROUANET SAID US CCC LENDING TO FINANCE SALES OF CERTAIN COMMODITIES TO EASTERN EUROPE HAS CAUSED GOB AND PRIVATE SECTOR CONCERN. AMB. CRIMMINS POINTED OUT THAT SECRETARY KISSINGER AND FOREIGN MINISTER SILVEIRA HAVE BEEN CORRESPONDING ON THIS ISSUE. AMB. YEUTTER OBSERVED THAT THIS WAS NOT A NEW PROGRAM, IT IS HAS BEEN USED FOR MANY YEARS, INTEREST RATES ARE NOT CONCESSIONAL, CREDIT IS PROVIDED FOR UP TO 3 YEARS, AND CCC LENDING IS IN NO WAY VIOLATIVE OF THE GATT. HE CONTINUED THAT AVAILABILITY OF SUCH A PROGRAM IS A COMPETITIVE FACTOR, PARTICULARLY AMONG DEVELOPED NATION EXPORTERS AND THAT EXPORTING LDCS PROBABLY ARE AT SOMEWHAT OF A DISADVANTAGE IN NOT HAVING SUCH A PROGRAM. AMB. YEUTTER SAID MANY OF THE CCC SALES WERE MADE TO IMPORTING LDCS, WHICH WOULD BE BENEFICIAL TO THEM. IN ADDITION, TO THE EXTENT THAT CCC CREDIT LEADS TO SALES THAT WOULD NOT OTHERWISE BE MADE, THE NET RESULT IS TO STRENGTHEN WORLD PRICES, AND LDC EXPORTERS BENEFIT INDIRECTLY FROM LIMITED OFFICIAL USE

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THIS. HE NOTED THE PERENNIAL FOREIGN EXCHANGE PROBLEMS WHICH THE EASTERN EUROPEAN COUNTRIES FACE.

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COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00

OMB-01 XMB-02 OPIC-03 ARAE-00 CAB-02 FAA-00 DOTE-00

MC-02 EUR-12 /124 W

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P 071330Z SEP 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 7700

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AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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22. ROUANET RESPONDED SAYING THAT THE GOB RECOGNIZED THAT CCC CREDIT WAS NOT A SUBSIDY, BUT NOTED, THAT AMB. YEUTTER HAD GONE TO THE HEART OF THE MATTER IN NOTING THE COMPETITIVE ADVANTAGE OF DC'S OVER LDC'S IN PROGRAMS SUCH AS CCC CREDITS. HE REFERRED IN THIS CONTEXT TO THE LDC'S NEED FOR S & D TREATMENT. (IN THE AFTERNOON SESSION, WHITE (USDA) OUTLINED HOW THE CCC PROGRAM OPERATES.)

23. DISC. ROUANET ASKED WHAT ARE THE PERSPECTIVES FOR DISC IN THE FUTURE. AMB. YEUTTER REPLIED THAT THE GATT REVIEW OF DISC WOULD SOON BE COMPLETED. HE SAID ALSO THAT CONGRESS MIGHT WELL REDUCE THE TAX DEFERRAL BENEFITS OF DISC, ALTHOUGH IT NOW LOOKS AS IF BOTH AGRICULTURAL AND INDUSTRIAL PRODUCTS WILL BE RETAINED AS ELIGIBLE. AMB. YEUTTER NOTED THERE LIMITED OFFICIAL USE

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IS DISAGREEMENT IN THE USG ON DISC'S EFFECTIVENESS; HE BELIEVED IT STIMULATED SOME EXPORTS BUT NOT TO THE EXTENT CLAIMED BY ITS PROPONENTS. HE ADDED THAT DISC MIGHT ALSO UNDERGO NEGOTIATIONS IN THE MTN. ROUANET NOTED THAT IF DISC WERE TO BE FOUND INCONSISTENT WITH GATT, IT WOULD BE HARD FOR THE US TO NEGOTIATE COMPENSATION FOR ITS REMOVAL.

AGENDA ITEM 3 (B): TRADE ACT:

24. ROUANET OBSERVED THAT EVENTS IN THE PAST FEW DAYS HAD HAPPILY REDUCED THE GOB'S INTEREST IN DISCUSSING HONEY AND GSP ADDITIONS. AMB. YEUTTER SAID THE PRESIDENT HAD MADE THE RIGHT DECISION ON HONEY DESPITE A FLOOD OF LETTERS ASKING FOR ACTION. HE POINTED OUT THAT UNREFINED CASTOR OIL HAD BEEN

PUT ON GSP, AND THAT LEATHER APPAREL WILL REMAIN ON THE GSP LIST FOR AT LEAST ANOTHER 90 DAYS, PENDING FURTHER EVALUATION OF THE IMPORT SITUATION. AMB. YEUTTER SAID THE SENATE AGRICULTURAL COMMITTEE'S KILLING OF THE PEANUT OIL BILL HAD REMOVED A POTENTIALLY SERIOUS PROBLEM--MANDATORY EXPORT SUBSIDIES FOR SALES OF OUR PEANUT OIL STOCKS. LANDE OBSERVED THAT BRAZIL'S SUCCESSES ON A NUMBER OF THESE ISSUES TESTIFIED TO THE IMPORTANCE OF THE CONSULTATIVE SUB-GROUP. VASTINE OBSERVED THAT THE POSITIVE DECISIONS INDICATED THAT THE US IS MAKING EVERY EFFORT TO IMPLEMENT THE TRADE ACT IN THE BEST POSSIBLE WAY. HE NOTED THAT SECRETARY SIMON HAS RECEIVED STRONG DOMESTIC CRITICISM FOR THE CVD WAIVER ON LEATHER HANDBAGS. VASTINE ADDED THAT THE SIMON-SIMONSEN UNDERSTANDING HAS PROCEEDED VERY WELL. ROUANET REPLIED THAT THE GOB WAS VERY PLEASED WITH THE NEW DEVELOPMENTS, AND APPRECIATED THE POLITICAL DIFFICULTIES FOR THE US, BUT ADDED THAT BRAZIL HAS HAD POLITICAL DIFFICULTIES WITH SOME OF THESE ISSUES AS WELL.

25. CVD'S. VASTINE SAID TREASURY HAD TO MAKE A FINAL DETERMINATION ON SCISSORS AND SHEARS BY FEB. 9, 1977; AND ON COTTON YARN, A PRELIMINARY DETERMINATION BY SEPT. 9, LIMITED OFFICIAL USE

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AND A FINAL DETERMINATION BY MARCH 9, 1977. IN BOTH CASES, HE SAID, THERE IS A GOOD PERIOD OF TIME FOR USG-GOB DISCUSSIONS. THE US SIDE AGREED WITH ROUANET'S COMMENT THAT THESE ISSUES ARE BEST LEFT TO THE TREASURY-MINISTRY OF FINANCE CHANNEL. REGARDING YARN, ROUANET ASKED WHAT WERE THE POSSIBILITIES FOR A WIVER BASED ON THE BILATERAL TEXTILE AGREEMENT. VASTINE SAID HE WOULD HAVE TO REFER THIS QUESTION TO ASSISTANT SECRETARY MACDONALD'S OFFICE IN TREASURY. ROUANET ASKED ABOUT THE POSSIBILITIES FOR A CONGRESSIONAL OVERRIDE ON THE HANDBAGS WAIVER. VASTINE REPLIED THAT AN OVERRIDE WAS POSSIBLE BUT NOT LIKELY. EXPLAINING THE REACTION TO THE HANDBAG WAIVER, AMB. YEUTTER NOTED THAT PRODUCERS UNHAPPY WITH THE PRESIDENT'S DECISION ON THE ESCAPE CLAUSE ACTION ON SHOES AND FRUSTRATED BY THE IMPOSSIBILITY OVER AN OVERRIDE HAD FOCUSED THEIR ATTENTION ON THE HANDBAGS ISSUE. VASTINE NOTED THAT MANIFESTATION OF THE UNHAPPINESS WAS A MOVE IN THE SENATE BY RIBICOFF TO CHANGE THE WAY IN WHICH ITC MAJORITIES ARE DEFINED FOR INJURY DECISIONS.

AGENDA ITEM (4): RENEGOTIATION OF SCHEDULE III - BRAZIL

26. THE MORNING SESSION CONCLUDED WITH A BRIEF
CONSIDERATION OF GATT SCHEDULE III, THE MULTIFIBER
TEXTILE AGREEMENT (MFA), AND THE EC SOYOIL TAX.
ROUANET SAID HE WAS PLEASED TO ANNOUNCE THAT THE DECREE
AUTHORIZING CONSULTATIONS FOR SCHEDULE III COMPENSATION
HAS NOW BEEN ISSUED AND PUBLISHED IN THE DIARIO
OFICIAL ON AUGUST 27. CONSULTATIONS CAN BEGIN ONCE
THE TRANSLATION (INCLUDING CONFORMATION
WITH BTN) IS COMPLETED. HE HAD ONE SPECIAL REQUEST: THAT
PARTIES INTERESTED IN COMPENSATION UNDER GATT
MAKE A PRECISE IDENTIFICATION OF REQUESTS AS SOON AS
POSSIBLE. AMB. YEUTTER WELCOMED THIS NEWS, AND EXPRESSED
THE HOPE THAT WE CAN PROCEED RAPIDLY WITH CONSULTATIONS

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27. MFA. AMB. YEUTTER SAID THE USG BELIEVES
THE SIMPLEST AND PREFERRED APPROACH IS TO EXTEND THE

EXISTING MFA. ROUANET SAID THERE WAS NO GOB POSITION AS YET, BUT AN INTERAGENCY MEETING WAS SCHEDULED FOR NEXT WEEK, AND HE WOULD COMMUNICATE THE RESULTS PROMPTLY. HIS PERSONAL OPINION WAS THAT THE USG APPROACH WAS CORRECT, BUT HE EMPHASIZED THAT THIS VIEW DID NOT REPRESENT GOB POLICY.

28. EC SOYBEAN OIL TAX. ON USG/GOB REPRESENTATIONS ON THE EC SOYOIL TAX, YEUTTER EXPRESSED OUR PLEASURE THAT THE GOB WAS ON BOARD. HE SAID THE USG WAS QUITE DISPLEASED WITH THE EC PROPOSAL AND THAT WE HAD INFORMED THEM THEY COULD EXPECT IMMEDIATE RETALIATION IF THE TAX IS PASSED. THE ZERO BINDING ON SOYOIL UNDER GATT IS OBVIOUSLY A SOURCE OF EC CONCERN, BUT LIMITED OFFICIAL USE

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TO ATTACK IT IN AN ILLEGAL MANNER IS TOTALLY UNJUSTIFIED. THE EC CLAIMS AFFECTED LDCE MIGHT BE COMPENSATED WITH AID, AT THE INITIATIVE OF AN INDIVIDUAL EC MEMBER BUT BOTH BRAZIL AND THE US RECOGNIZE THAT SUCH AID IS UNLIKELY -- AND IN NO WAY MAKES UP FOR CONTRAVENING GATT. ROUANET EXPRESSED HIS APPRECIATION FOR US COOPERATION ON THE ISSUE, AND PROMISED CONTINUED CONSULTATIONS ON A COMMON POSITION. CRIMMINS

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Message Attributes

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